

Auditing Procedures Report

Issued under P.A. 2 of 1988, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other			Local Unit Name CITY OF HAZEL PARK		County OAKLAND
Fiscal Year End JUNE 30, 2006		Opinion Date NOVEMBER 30, 2006		Date Audit Report Submitted to State December 20, 2006	

We affirm that:

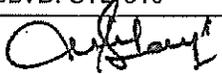
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - The local unit has adopted a budget for all required funds.
 - A public hearing on the budget was held in accordance with State statute.
 - The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - The local unit only holds deposits/investments that comply with statutory requirements.
 - The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - The local unit is free of repeated comments from previous years.
 - The audit opinion is UNQUALIFIED.
 - The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - The board or council approves all invoices prior to payment as required by charter or statute.
 - To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	TO BE FORWARDED	
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) ALAN C YOUNG & ASSOCIATES, P.C.		Telephone Number (313) 873 7500	
Street Address 2990 W. GRAND BLVD. STE 310		City DETROIT	State Zip MI 48202
Authorizing CPA Signature 	Printed Name ANIL SAKHUJA		License Number 110102118

City of Hazel Park, Michigan

**Financial Report
with Supplemental Information
June 30, 2006**

City of Hazel Park, Michigan

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Independent Auditor's Report

To the Honorable Mayor and Members
of the City Council
City of Hazel Park, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hazel Park, Michigan as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Hazel Park, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hazel Park, Michigan as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, the budgetary comparison schedule and pension system schedules of funding progress and employer contributions, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Honorable Mayor and Members
of the City Council
City of Hazel Park, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hazel Park, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 15, an adjustment was made to beginning net assets in the government-wide financial statements to record estimated liability for self-insured general liability claims incurred but not reported. The impact of these changes is summarized in Note 15.

Alan C. Young; Assoc.

November 30, 2006

City of Hazel Park, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Hazel Park, Michigan's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2006:

- The City is in negotiations to move its defined benefit pension plan from a single-employer, self-administered plan to the Michigan Municipal Employees' Retirement System (MERS), a multiple-employer plan. It is anticipated that moving to the MERS plan will save the City anywhere from \$270,000 - \$700,000 annually in required pension contributions.
- If the City moves to the MERS pension system, it will be done with a retroactive date effective July 1, 2005. While the negotiations are ongoing, we have concluded to delay making the June 30, 2006 pension contribution, because we could end up contributing more than would be necessary. Since the pension contribution has not been made, a net pension obligation (NPO) in the amount of \$1,379,001 and \$93,750 has been recorded for the governmental activities and business-type activities, respectively. This means that the required pension contribution is recorded as a long-term liability and is not reflected on the fund-based statements of the governmental funds. Fund balance of the respective governmental funds has been designated for the required contribution.
- General Fund revenue increased \$712,500 over 2005 while operating expenditures decreased \$736,800. The primary reason for the significant decrease in operating expenses is the result of recording an NPO, as discussed above.
- The General Fund realized revenues over expenditures of approximately \$616,600, compared to an operating deficit of \$938,000 in 2005.
- City-wide health care expenses increased by \$263,000, or 11 percent, over the prior year. Annual health care costs have increased \$550,000 since 2004, which is more than 26 percent. Retiree health care represents over 55 percent of the City's total cost of health care.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets (deficit) and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

City of Hazel Park, Michigan

Management's Discussion and Analysis (Continued)

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date:

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Current assets	\$ 2,466,684	\$ 3,223,385	\$ 1,948,834	\$ 2,217,344	\$ 4,415,518	\$ 5,440,729
Noncurrent assets	<u>21,733,465</u>	<u>22,850,534</u>	<u>15,947,944</u>	<u>16,299,330</u>	<u>37,681,409</u>	<u>39,149,864</u>
Total assets	24,200,149	26,073,919	17,896,778	18,516,674	42,096,927	44,590,593
Liabilities						
Current liabilities	1,409,565	3,170,245	1,072,741	1,099,895	2,482,306	4,270,140
Long-term liabilities	<u>6,130,135</u>	<u>4,915,933</u>	<u>12,369,667</u>	<u>12,952,251</u>	<u>18,499,802</u>	<u>17,868,184</u>
Total liabilities	<u>7,539,700</u>	<u>8,086,178</u>	<u>13,442,408</u>	<u>14,052,146</u>	<u>20,982,108</u>	<u>22,138,324</u>
Net Assets (Deficit)						
Invested in capital assets -						
Net of related debt	18,570,851	19,503,487	2,450,043	2,053,725	21,020,894	21,557,212
Restricted	961,212	727,923	127,500	178,743	1,088,712	906,666
Unrestricted	<u>(2,871,614)</u>	<u>(2,243,669)</u>	<u>1,876,827</u>	<u>2,232,060</u>	<u>(994,787)</u>	<u>(11,609)</u>
Total net assets (deficit)	<u>\$ 16,660,449</u>	<u>\$ 17,987,741</u>	<u>\$ 4,454,370</u>	<u>\$ 4,464,528</u>	<u>\$ 21,114,819</u>	<u>\$ 22,452,269</u>

The City's combined net assets decreased approximately 6 percent from a year ago, decreasing from approximately \$22,452,000 to \$21,115,000. Analyzing the governmental activities separately from the business-type activities, the net assets related to governmental activities decreased by approximately \$1,327,000 and the business-type decreased by approximately \$10,100.

City of Hazel Park, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets during the current year:

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue						
Program revenue:						
Charges for services	\$ 3,701,116	\$ 3,461,988	\$ 4,999,156	\$ 4,625,733	\$ 8,700,272	\$ 8,087,721
Operating grants and contributions	1,419,702	1,310,065	-	-	1,419,702	1,310,065
Capital grants and contributions	45,734	-	-	-	45,734	-
General revenue:						
Property taxes	6,040,742	5,558,475	-	-	6,040,742	5,558,475
State-shared revenue	2,565,278	2,594,737	-	-	2,565,278	2,594,737
Race track breakage	551,891	603,176	-	-	551,891	603,176
Unrestricted investment earnings	110,744	77,109	25,854	12,316	136,598	89,425
Franchise fees	151,074	141,173	-	-	151,074	141,173
Gain on sale of assets	-	19,673	-	98,987	-	118,660
Transfers	(200,000)	-	200,000	-	-	-
Total revenue	14,386,281	13,766,396	5,225,010	4,737,036	19,611,291	18,503,432
Program Expenses						
General government	4,237,048	3,671,383	-	-	4,237,048	3,671,383
Public safety	7,062,252	7,245,016	-	-	7,062,252	7,245,016
Public works	3,546,630	3,749,050	-	-	3,546,630	3,749,050
Recreation and culture	353,852	385,210	-	-	353,852	385,210
Community and economic development	373,136	474,622	-	-	373,136	474,622
Interest on long-term debt	140,655	151,736	-	-	140,655	151,736
Water and sewer	-	-	3,822,144	3,796,263	3,822,144	3,796,263
Municipal Ice Arena	-	-	1,413,024	1,296,581	1,413,024	1,296,581
Total program expenses	15,713,573	15,677,017	5,235,168	5,092,844	20,948,741	20,769,861
Change in Net Assets	\$ (1,327,292)	\$ (1,910,621)	\$ (10,158)	\$ (355,808)	\$ (1,337,450)	\$ (2,266,429)

City of Hazel Park, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

Total revenues of the governmental activities increased \$619,900 when compared to the prior year. Total expenses increased \$36,500 when compared to last year. The City continues to try to close the gap between revenues and expenditures.

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund and Municipal Ice Arena Fund.

The City provides water to residents from the City of Detroit's water system and sewage treatment is provided through the Oakland County Drain Commission. Operations of the systems improved compared to the prior year. The current year income from operations was approximately \$225,600, while the prior year resulted in a loss of \$179,600. Due to a meter change-out program over the past few years, the City has been able to get more accurate reads on water use.

The Municipal Ice Arena houses two ice rinks that cater to local amateur hockey teams, figure skaters, and public skating. In 2006, the ice arena experienced income from operations of approximately \$117,600, which is down from \$274,000 in 2005. Although operations have generated profits, the debt service requirements exceed the operating income. The ice arena received a \$200,000 subsidy from the City's General Fund during 2006 to help with the debt service requirements.

The City's Funds

Our analysis of the City's major funds begins on page 12, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City's major funds for 2006 include the General Fund, the Water and Sewer Fund, and the Municipal Ice Arena Fund.

The General Fund pays for most of the City's governmental services. The most significant are police and fire, which incurred expenses of approximately \$5.8 million in 2006, which represents approximately 51 percent of total General Fund expenditures. These two services are fully supported through the General Fund, which relies on state-shared revenue and property taxes as its major source of funding.

City of Hazel Park, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. The final amended budget included approximately \$996,000 more in expenses than the originally adopted budgeted, in anticipation of increasing pension and health care costs. The final budget provided that the City would use \$635,800 of beginning fund balance; actual operations resulted in the addition of \$616,600 to fund balance. The reason for the large variance is that there is no pension expense recorded in the General Fund in 2006 because of the NPO. Had the pension expense been recorded, the actual expenditures would have come within \$18,000 of budgeted expenditures.

Capital Asset and Debt Administration

The City continued to curtail capital asset purchases for governmental activities throughout 2006. Notable capital asset additions in 2006 included a security camera system purchased with grant funds and the reconstruction of a portion of one of the City's major roads. Capital asset purchases will continue to be curtailed for the foreseeable future.

Capital asset purchases in 2006 for business-type activities included \$197,500 of new water meters and approximately \$113,600 of water line improvements.

Economic Factors and Next Year's Budgets and Rates

In February 2006, the City's voters passed a Headlee Amendment override, which will become effective for the property taxes levied on July 1, 2006. By passing the override, the City's operating mills will be restored to the 20-mill charter tax rate. The increased millage is expected to generate approximately \$1 million in additional revenue.

As mentioned in the financial highlights section, the City is negotiating a change in the administration of its pension system, which could save a significant amount of expenditures annually.

The combination of the increased property tax revenue and the anticipated savings on the required pension contribution should move the City in a positive direction and result in the reduction of its deficit.

The continued increases in health care costs, along with the inability of the Municipal Ice Arena to operate profitably, will continue to put pressure on the City's finances. City management and City Council representatives continue to monitor the current financial situation and have implemented strategies to maintain the current levels of service to the public.

City management continues to maintain a heightened level of awareness of its overall financial position and is proactively making changes in its operations and procedures to improve its productivity, control costs, and identify alternative revenue enhancement sources.

City of Hazel Park, Michigan

Management's Discussion and Analysis (Continued)

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

City of Hazel Park, Michigan

Statement of Net Assets (Deficit) June 30, 2006

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 1,191,786	\$ 535,730	\$ 1,727,516	\$ 7,828
Receivables (Note 4)	1,194,836	969,324	2,164,160	59,686
Internal balances (Note 6)	(157,884)	157,884	-	-
Inventories	3,167	39,524	42,691	-
Prepaid costs and other assets	234,779	246,372	481,151	-
Long-term receivable - Pension Fund	216,666	433,334	650,000	-
Restricted assets (Note 8)	-	127,500	127,500	-
Capital assets - Net (Note 5):				
Assets not being depreciated	1,194,004	891,033	2,085,037	154,766
Assets being depreciated	20,322,795	14,496,077	34,818,872	132,365
Total assets	24,200,149	17,896,778	42,096,927	354,645
Liabilities				
Accounts payable	253,728	244,763	498,491	21
Accrued and other liabilities	651,192	128,836	780,028	88,406
Deferred revenue (Note 4)	50,149	-	50,149	-
Noncurrent liabilities (Note 7):				
Due within one year	454,496	699,142	1,153,638	285,226
Due in more than one year	6,130,135	12,369,667	18,499,802	4,401,055
Total liabilities	7,539,700	13,442,408	20,982,108	4,774,708
Net Assets (Deficit)				
Invested in capital assets - Net of related debt	18,570,851	2,450,043	21,020,894	230,850
Restricted:				
Construction code fees	210,317	-	210,317	-
Highways and streets	25,717	-	25,717	-
Garbage and rubbish collection	347,469	-	347,469	-
Drug law enforcement	266,978	-	266,978	-
Cable operations	99,472	-	99,472	-
Grant funds	11,259	-	11,259	-
Revenue bond	-	127,500	127,500	-
Unrestricted	(2,871,614)	1,876,827	(994,787)	(4,650,913)
Total net assets (deficit)	\$ 16,660,449	\$ 4,454,370	\$ 21,114,819	\$ (4,420,063)

City of Hazel Park, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 4,237,048	\$ 2,092,840	\$ -	\$ -
Public safety	7,062,252	425,396	98,651	45,734
Public works	3,546,630	835,647	1,136,426	-
Recreation and culture	353,852	99,802	80,951	-
Community and economic development	373,136	247,431	103,674	-
Interest on long-term debt	140,655	-	-	-
Total governmental activities	15,713,573	3,701,116	1,419,702	45,734
Business-type activities:				
Water and sewer	3,822,144	3,880,737	-	-
Municipal Ice Arena	1,413,024	1,118,419	-	-
Total business-type activities	5,235,168	4,999,156	-	-
Total primary government	<u>\$ 20,948,741</u>	<u>\$ 8,700,272</u>	<u>\$ 1,419,702</u>	<u>\$ 45,734</u>
Component unit - Downtown Development Authority	<u>\$ 632,773</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:
 Property taxes
 State-shared revenues
 Race track breakage
 Unrestricted investment earnings
 Franchise fees

Transfers

Total general revenues and transfers

Change in Net Assets

Net Assets (Deficit) - Beginning of year, as restated (Note 15)

Net Assets (Deficit) - End of year

Statement of Activities
Year Ended June 30, 2006

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (2,144,208)	\$ -	\$ (2,144,208)	\$ -
(6,492,471)	-	(6,492,471)	-
(1,574,557)	-	(1,574,557)	-
(173,099)	-	(173,099)	-
(22,031)	-	(22,031)	-
(140,655)	-	(140,655)	-
(10,547,021)	-	(10,547,021)	-
-	58,593	58,593	-
-	(294,605)	(294,605)	-
-	(236,012)	(236,012)	-
(10,547,021)	(236,012)	(10,783,033)	-
-	-	-	(632,773)
6,040,742	-	6,040,742	869,703
2,565,278	-	2,565,278	-
551,891	-	551,891	-
110,744	25,854	136,598	5,141
151,074	-	151,074	-
(200,000)	200,000	-	-
9,219,729	225,854	9,445,583	874,844
(1,327,292)	(10,158)	(1,337,450)	242,071
17,987,741	4,464,528	22,452,269	(4,662,134)
\$ 16,660,449	\$ 4,454,370	\$ 21,114,819	\$ (4,420,063)

City of Hazel Park, Michigan

Governmental Funds Balance Sheet June 30, 2006

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and investments	\$ 12,544	\$ 959,242	\$ 971,786
Receivables (Note 4)	445,192	33,826	479,018
Due from other governmental units (Note 4)	508,547	207,271	715,818
Due from other funds (Note 6)	4,074	-	4,074
Prepaid costs and other assets	234,779	-	234,779
Inventory	3,167	-	3,167
Long-term receivable - Pension Fund	216,666	-	216,666
Total assets	\$ 1,424,969	\$ 1,200,339	\$ 2,625,308
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 166,735	\$ 86,993	\$ 253,728
Accrued and other liabilities	415,222	18,792	434,014
Due to other funds (Note 6)	-	4,074	4,074
Advances due to other funds (Note 6)	-	157,884	157,884
Deferred revenue (Note 4)	-	50,149	50,149
Total liabilities	581,957	317,892	899,849
Fund Balances			
Reserved for:			
Long-term receivable from Pension Fund	216,666	-	216,666
Construction code fees (Note 2)	210,317	-	210,317
Inventory	3,167	-	3,167
Fire equipment	1,205	-	1,205
Unreserved - Designated for pension contribution	1,322,457	-	1,322,457
Unreserved - Undesignated	(910,800)	-	(910,800)
Unreserved - Reported in Special Revenue Funds:			
Designated for pension contribution	-	29,817	29,817
Undesignated	-	852,630	852,630
Total fund balances	843,012	882,447	1,725,459
Total liabilities and fund balances	\$ 1,424,969	\$ 1,200,339	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	21,516,799
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(6,584,631)
Accrued interest on long-term liabilities is not due and payable in the current period and is not reported in the funds	2,822
Net assets of governmental activities	\$ 16,660,449

City of Hazel Park, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2006

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue			
Property taxes	\$ 5,304,847	\$ 735,895	\$ 6,040,742
Licenses and permits	443,753	-	443,753
Federal grants	-	163,744	163,744
State-shared revenues and grants	2,658,007	1,220,741	3,878,748
Race track breakage	480,145	71,746	551,891
Charges for services	673,230	480,415	1,153,645
Fines and forfeitures	1,749,499	-	1,749,499
Interest and rentals	83,151	28,708	111,859
Other	641,291	193,120	834,411
Total revenue	12,033,923	2,894,369	14,928,292
Expenditures			
Current:			
General government	4,334,870	103,779	4,438,649
Public safety	5,762,613	99,476	5,862,089
Public works	519,177	1,881,234	2,400,411
Community and economic development	373,872	-	373,872
Recreation and culture	347,466	-	347,466
Capital outlay	-	69,745	69,745
Debt service	-	378,097	378,097
Total expenditures	11,337,998	2,532,331	13,870,329
Excess of Revenue Over Expenditures	695,925	362,038	1,057,963
Other Financing Sources (Uses)			
Proceeds from the issuance of long-term debt	68,620	-	68,620
Transfers in	130,000	106,238	236,238
Transfers out	(277,923)	(158,315)	(436,238)
Total other financing uses	(79,303)	(52,077)	(131,380)
Net Change in Fund Balances	616,622	309,961	926,583
Fund Balances - Beginning of year	226,390	572,486	798,876
Fund Balances - End of year	\$ 843,012	\$ 882,447	\$ 1,725,459

City of Hazel Park, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$ 926,583
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	103,019
Depreciation on capital assets reported as part of governmental activities	(1,203,421)
Repayment of long-term obligations is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	286,386
Loan proceeds are not reported as financing sources on the statement of activities	(68,620)
Pension expense related to net pension obligation recorded in the statement of activities, but not in the governmental funds	(1,352,274)
Increases in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities	(19,371)
Decrease in accrued interest expense is recorded when incurred in the statement of activities	406
Change in Net Assets of Governmental Activities	<u>\$ (1,327,292)</u>

City of Hazel Park, Michigan

Proprietary Funds Statement of Net Assets (Deficit) June 30, 2006

	Enterprise Funds			Governmental
	Water and Sewer	Municipal Ice Arena	Total	Internal
			Enterprise Funds	Service Fund
Assets				
Current assets:				
Cash and investments (Note 3)	\$ 371,320	\$ 164,410	\$ 535,730	\$ 220,000
Receivables (Note 4)	969,324	-	969,324	-
Advances due from other funds (Note 6)	157,884	-	157,884	-
Inventories	39,524	-	39,524	-
Prepaid costs and other assets	85,664	160,708	246,372	-
Total current assets	1,623,716	325,118	1,948,834	220,000
Noncurrent assets:				
Long-term receivables	433,334	-	433,334	-
Restricted assets (Note 8)	127,500	-	127,500	-
Capital assets - Net (Note 5)	7,731,533	7,655,577	15,387,110	-
Total noncurrent assets	8,292,367	7,655,577	15,947,944	-
Total assets	9,916,083	7,980,695	17,896,778	220,000
Liabilities				
Current liabilities:				
Accounts payable	221,419	23,344	244,763	-
Accrued and other liabilities	28,719	100,117	128,836	220,000
Current portion of long-term debt (Note 7)	395,561	303,581	699,142	-
Total current liabilities	645,699	427,042	1,072,741	220,000
Noncurrent liabilities - Long-term debt - Net of current portion (Note 7)	4,247,671	8,121,996	12,369,667	-
Total liabilities	4,893,370	8,549,038	13,442,408	220,000
Net Assets (Deficit)				
Investment in capital assets - Net of related debt	3,194,466	(744,423)	2,450,043	-
Restricted - Revenue bond	127,500	-	127,500	-
Unrestricted	1,700,747	176,080	1,876,827	-
Total net assets (deficit)	<u>\$ 5,022,713</u>	<u>\$ (568,343)</u>	<u>\$ 4,454,370</u>	<u>\$ -</u>

City of Hazel Park, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets (Deficit) Year Ended June 30, 2006

	Enterprise Funds			Governmental
	Water and Sewer	Municipal Ice Arena	Total Enterprise Funds	Activities
				Internal Service Fund
Operating Revenue				
Sale of water	\$ 1,609,347	\$ -	\$ 1,609,347	\$ -
Sewage disposal charges	1,926,512	-	1,926,512	-
Charges for services	336,288	-	336,288	-
City contributions	-	-	-	2,588,069
Rental income	-	986,521	986,521	-
Concessions	-	62,946	62,946	-
Pro shop	-	24,400	24,400	-
Other operating income	8,590	44,552	53,142	-
Total operating revenue	3,880,737	1,118,419	4,999,156	2,588,069
Operating Expenses				
Cost of water produced/purchased	492,428	-	492,428	-
Cost of sewage treatment	1,054,816	-	1,054,816	-
Operation and maintenance	1,154,169	657,001	1,811,170	-
General and administrative	556,668	150,670	707,338	-
Depreciation and amortization	397,029	193,140	590,169	-
Benefit payments and claims administration	-	-	-	2,593,721
Total operating expenses	3,655,110	1,000,811	4,655,921	2,593,721
Operating Income (Loss)	225,627	117,608	343,235	(5,652)
Nonoperating Income (Expense)				
Interest income	20,143	5,711	25,854	5,652
Interest expense	(167,034)	(412,213)	(579,247)	-
Income (Loss) - Before transfers	78,736	(288,894)	(210,158)	-
Transfers from Other Funds	-	200,000	200,000	-
Change in Net Assets	78,736	(88,894)	(10,158)	-
Net Assets (Deficit) - Beginning of year	4,943,977	(479,449)	4,464,528	-
Net Assets (Deficit) - End of year	\$ 5,022,713	\$ (568,343)	\$ 4,454,370	\$ -

City of Hazel Park, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2006

	Enterprise Funds		Governmental Activities
	Water and Sewer	Municipal Ice Arena	Internal Service Fund
Cash Flows from Operating Activities			
Receipts from customers	\$ 3,853,687	\$ 1,118,419	\$ -
Contributions received	-	-	2,588,069
Payments to suppliers	(2,614,330)	(391,813)	-
Payments to employees	(550,685)	(309,174)	-
Claims paid	-	-	(2,593,721)
Net cash provided by (used in) operating activities	688,672	417,432	(5,652)
Cash Flows from Noncapital and Related Financing Activities			
Proceeds from repayment of interfund advances	12,757	-	-
Transfers from other funds	-	200,000	-
Proceeds from repayment of long-term receivable	33,333	-	-
Net cash provided by noncapital and related financing activities	46,090	200,000	-
Cash Flows from Capital and Related Financing Activities			
Purchase of capital assets	(311,077)	-	-
Principal and interest paid on capital debt	(529,383)	(812,343)	-
Net cash used in capital and related financing activities	(840,460)	(812,343)	-
Cash Flows from Investing Activities - Interest received on investments	20,143	5,711	5,652
Net Decrease in Cash and Cash Equivalents	(85,555)	(189,200)	-
Cash and Cash Equivalents - Beginning of year	584,375	353,610	220,000
Cash and Cash Equivalents - End of year	\$ 498,820	\$ 164,410	\$ 220,000
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments	\$ 371,320	\$ 164,410	\$ 220,000
Restricted assets	127,500	-	-
Total cash and cash equivalents	\$ 498,820	\$ 164,410	\$ 220,000
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities			
Operating income (loss)	\$ 225,627	\$ 117,608	\$ (5,652)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation and amortization	397,029	193,140	-
Net pension obligation	80,615	13,135	-
Changes in assets and liabilities:			
Receivables	(27,050)	-	-
Other assets	62,448	(15,439)	-
Accounts payable	(51,044)	9,580	-
Accrued and other liabilities	1,047	99,408	-
Net cash provided by (used in) operating activities	\$ 688,672	\$ 417,432	\$ (5,652)

There were no noncash transactions during the year.

City of Hazel Park, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2006

	Pension Trust Fund	Agency Funds
Assets		
Cash (Note 3)	\$ 88,682	\$ 280,669
Investments (Note 3):		
Corporate bonds	5,531,166	-
U.S. government bonds and notes	2,354,409	-
Mortgage-backed securities	4,734,062	-
Collateralized mortgage obligations	1,855,930	-
Common and preferred stock	22,920,760	-
Mutual funds	1,990,470	-
Total investments	39,386,797	-
Other receivables	650,000	-
Total assets	40,125,479	<u>\$ 280,669</u>
Liabilities		
Accrued and other liabilities	34,240	\$ 188,662
Due to other governmental units	663,866	92,007
Total liabilities	698,106	<u>\$ 280,669</u>
Net Assets - Held in trust for pension benefits	<u>\$ 39,427,373</u>	

City of Hazel Park, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2006

	Pension Trust Fund
Additions	
Investment income:	
Interest and dividends	\$ 1,252,898
Net appreciation in fair value of investments	555,000
Less investment expenses	<u>(264,297)</u>
Net investment income	1,543,601
Contributions - Employee	<u>516,945</u>
Total contributions	<u>516,945</u>
Total additions	2,060,546
Deductions	
Benefit payments	3,161,447
Refunds of contributions	27,424
Administrative expenses	<u>193,575</u>
Total deductions	<u>3,382,446</u>
Net Decrease in Net Assets Held for Pension Benefits	(1,321,900)
Net Assets Held in Trust for Pension Benefits	
Beginning of year	<u>40,749,273</u>
End of year	<u><u>\$ 39,427,373</u></u>

City of Hazel Park, Michigan

**Notes to Financial Statements
June 30, 2006**

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Hazel Park, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Hazel Park, Michigan:

Reporting Entity

The City of Hazel Park, Michigan is governed by an elected five-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Blended Component Units

The Hazel Park Building Authority is governed by a five-member board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings. The activity of the Hazel Park Building Authority is reported within the General Fund and Municipal Ice Arena Enterprise Fund.

Discretely Presented Component Unit - The Downtown Development Authority (the "DDA") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA's governing body is approved by the City Council. In addition, the DDA's budget is subject to approval by the City.

Jointly Governed Organization - Jointly governed organizations are discussed in Note 12.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets (deficit) and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements.

Note I - Summary of Significant Accounting Policies (Continued)

Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds and fiduciary funds financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note I - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 63 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following major governmental fund:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major Enterprise Funds:

Water and Sewer Fund - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

Municipal Ice Arena Fund - The Municipal Ice Arena Fund accounts for the operations of Viking Ice Arena.

Additionally, the City reports the following fund types:

Internal Service Fund - The Internal Service Fund accounts for risk management services provided to other departments of the City on a cost reimbursement basis.

Pension Trust Fund - The Pension Trust Fund accounts for the activities of the City's employees' retirement system, which accumulates resources for pension benefit payments to qualified City employees.

Note 1 - Summary of Significant Accounting Policies (Continued)

Agency Funds - Agency Funds account for assets held by the City for individuals, organizations, other governments, or other funds. They are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its Enterprise Funds.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. To the extent that cash from various funds has been pooled, pooled investment income is generally allocated to each fund using a weighted average of balance for the principal.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Note I - Summary of Significant Accounting Policies (Continued)

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on August 31, at which time penalties and interest are assessed.

The City's 2005 tax is levied and collectible on July 1, 2005 and is recognized as revenue in the year ended June 30, 2006, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2005 taxable valuation of the City totaled \$289.4 million (a portion of which is abated and a portion of which is captured by the DDA), on which taxes levied consisted of 16.609 mills for operating purposes and 2.4907 mills for garbage and rubbish. This resulted in approximately \$4.8 million for operating, and approximately \$718,000 for garbage and rubbish. These amounts are recognized in the respective General and Special Revenue Funds financial statements as property tax revenue.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Land improvements	20 years
Water and sewer distribution systems	30-50 years
Buildings and building improvements	10-50 years
Vehicles	6 years
Machinery and equipment	5-20 years
Infrastructure	20-50 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Vacation pay is accrued when earned, and sick pay is accrued when vested (or likely to vest). A liability is accrued when incurred in the government-wide and proprietary fund financial statements.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets (deficit). Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

City of Hazel Park, Michigan

Notes to Financial Statements June 30, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Compliance and Accountability

Fund Deficits - The City has accumulated deficits in the following individual funds:

The General Fund has an unreserved, undesignated fund deficit of \$910,800. See Note 16 for management's plans for eliminating this deficit.

The Municipal Ice Arena Fund had an accumulated deficit of \$568,343. The City plans to eliminate the existing deficit through rate increases and interfund transfers.

Noncompliance with Legal Requirements - The City did not make its June 30, 2006 pension contribution. The City is in negotiations to change the pension system administrator to Michigan Municipal Employees' Retirement System retroactively to July 1, 2005. The contribution has been delayed until the resolution of this matter.

Construction Code Fees - The City oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity since January 1, 2000 is as follows:

Cumulative surplus - July 1, 2005	\$ 222,796
Revenue	216,946
Related expenses:	
Direct costs	(204,899)
Estimated indirect costs	<u>(24,526)</u>
Total construction code expenses	<u>(229,425)</u>
Cumulative surplus - June 30, 2006	<u>\$ 210,317</u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Pension Trust Fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The City has designated eight banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had approximately \$944,500 of bank deposits (certificates of deposit, checking and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 3 - Deposits and Investments (Continued)

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year end, the City had no investment securities that were uninsured and unregistered, held by the counterparty or by its trust department or agent but not in the City's name.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Employees' pension plan:		
Corporate bonds	\$ 5,531,166	5.52 years
U.S. government bonds and notes	2,354,409	12.76 years
Mortgage-backed securities	4,734,062	21.49 years
Collateralized mortgage obligations	1,855,930	11.48 years

City of Hazel Park, Michigan

Notes to Financial Statements June 30, 2006

Note 3 - Deposits and Investments (Continued)

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Government-wide	\$ 160,112	AAAm	Standard & Poor's
	1,111,952	Not Rated	
Employees' pension plan	2,428,485	AAA	Standard & Poor's
	555,880	AA	Standard & Poor's
	949,763	AA-	Standard & Poor's
	672,806	A	Standard & Poor's
	1,313,389	A+	Standard & Poor's
	105,800	A-	Standard & Poor's
	309,287	BBB	Standard & Poor's
	217,853	BBB+	Standard & Poor's
	205,923	BBB-	Standard & Poor's

Note 4 - Receivables and Deferred Revenue

Receivables as of year end for the City's individual major funds and the nonmajor, Internal Service, and fiduciary funds in the aggregate, are as follows:

	General Fund	Nonmajor and Other Funds	Business-type Activities	Total	Component Units
Receivables:					
Special assessments	\$ 179,857	\$ 133,826	\$ -	\$ 313,683	\$ 58,678
Receivables from operations	151,011	-	994,324	1,145,335	-
Other	114,324	-	-	114,324	-
Due from other governmental units	508,547	207,271	-	715,818	1,008
Less allowance for uncollectibles	-	(100,000)	(25,000)	(125,000)	-
Total receivables	\$ 953,739	\$ 241,097	\$ 969,324	\$ 2,164,160	\$ 59,686

City of Hazel Park, Michigan

Notes to Financial Statements June 30, 2006

Note 4 - Receivables and Deferred Revenue (Continued)

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue, of which the entire amount is unearned, are as follows:

Cable equipment	\$ 5,000
Police training	27,501
9-11 Police Training Fund	7,755
Byrne Memorial Justice Grant	<u>9,893</u>
Total	<u><u>\$ 50,149</u></u>

Note 5 - Capital Assets

Capital asset activity of the City's governmental, business-type, and component unit activities was as follows:

Governmental Activities	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
Capital assets not being depreciated -				
Land	\$ 1,194,004	\$ -	\$ -	\$ 1,194,004
Capital assets being depreciated:				
Land improvements	906,100	-	-	906,100
Buildings and improvements	2,036,126	-	-	2,036,126
Machinery and equipment	4,912,671	55,101	-	4,967,772
Infrastructure:				
Roadways	35,208,766	47,918	-	35,256,684
Sidewalks	8,559,555	-	-	8,559,555
Street lights	<u>352,800</u>	<u>-</u>	<u>-</u>	<u>352,800</u>
Subtotal	51,976,018	103,019	-	52,079,037
Accumulated depreciation:				
Land improvements	797,588	11,915	-	809,503
Buildings and improvements	1,553,187	33,530	-	1,586,717
Machinery and equipment	3,900,578	259,849	-	4,160,427
Infrastructure:				
Roadways	20,863,747	709,296	-	21,573,043
Sidewalks	3,287,781	171,191	-	3,458,972
Street lights	<u>149,940</u>	<u>17,640</u>	<u>-</u>	<u>167,580</u>
Subtotal	<u>30,552,821</u>	<u>1,203,421</u>	<u>-</u>	<u>31,756,242</u>
Net capital assets being depreciated	<u>21,423,197</u>	<u>(1,100,402)</u>	<u>-</u>	<u>20,322,795</u>
Net capital assets	<u><u>\$ 22,617,201</u></u>	<u><u>\$ (1,100,402)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 21,516,799</u></u>

City of Hazel Park, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2005	Additions	Disposals and Adjustments	Balance June 30, 2006
Capital assets not being depreciated - Land	\$ 891,033	\$ -	\$ -	\$ 891,033
Capital assets being depreciated:				
Land improvements	416,994	-	-	416,994
Water and sewer distribution systems	13,168,480	113,565	-	13,282,045
Buildings and building improvements	8,093,333	-	-	8,093,333
Vehicles	616,442	-	-	616,442
Machinery and equipment	<u>1,519,740</u>	<u>197,510</u>	<u>-</u>	<u>1,717,250</u>
Subtotal	23,814,989	311,075	-	24,126,064
Accumulated depreciation:				
Land improvements	139,486	15,705	-	155,191
Water and sewer distribution systems	6,588,673	252,587	-	6,841,260
Buildings and building improvements	1,237,860	161,867	-	1,399,727
Vehicles	527,672	46,849	-	574,521
Machinery and equipment	<u>558,411</u>	<u>100,877</u>	<u>-</u>	<u>659,288</u>
Subtotal	<u>9,052,102</u>	<u>577,885</u>	<u>-</u>	<u>9,629,987</u>
Net capital assets being depreciated	<u>14,762,887</u>	<u>(266,810)</u>	<u>-</u>	<u>14,496,077</u>
Net capital assets	<u>\$ 15,653,920</u>	<u>\$ (266,810)</u>	<u>\$ -</u>	<u>\$ 15,387,110</u>
Component Unit				
Capital assets not being depreciated - Land	\$ 154,766	\$ -	\$ -	\$ 154,766
Capital assets being depreciated - Land improvements	<u>230,200</u>	<u>-</u>	<u>-</u>	<u>230,200</u>
Subtotal	384,966	-	-	384,966
Accumulated depreciation - Land improvements	<u>86,325</u>	<u>11,510</u>	<u>-</u>	<u>97,835</u>
Net capital assets	<u>\$ 298,641</u>	<u>\$ (11,510)</u>	<u>\$ -</u>	<u>\$ 287,131</u>

City of Hazel Park, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:		
General government		\$ 40,973
Public safety		154,431
Public works		967,421
Economic development		6,033
Recreation and culture		<u>34,563</u>
Total governmental activities		<u>\$ 1,203,421</u>
Business-type activities:		
Water and Sewer		\$ 392,815
Municipal Ice Arena		<u>185,070</u>
Total business-type activities		<u>\$ 577,885</u>

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Nonmajor governmental fund - Auto Theft Prevention Fund	<u>\$ 4,074</u>
Advances from/to Other Funds		
Water and Sewer Fund	Nonmajor governmental funds:	
	Major Street Fund	\$ 110,019
	Local Street Fund	16,253
	Community Development Block Grant Fund	<u>31,612</u>
Total Water and Sewer Fund		<u>\$ 157,884</u>

Interfund balances are due to the time lag between when expenses are paid on behalf of another fund and when the reimbursement is received. The advances resulted from a loan made for working capital purposes.

City of Hazel Park, Michigan

Notes to Financial Statements June 30, 2006

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund Transfers

Fund Transferred From	Fund Transferred To	Amount
General Fund	Nonmajor governmental funds:	
	Local Law Enforcement Block	
	Grant Fund	(2) \$ 2,014
	Auto Theft Prevention Fund	(2) 23,119
	Capital Improvement and	
	Replacement Fund	(5) 51,883
	Community Development	
	Block Grant Fund	(2) 907
	Major Proprietary Fund -	
	Municipal Ice Arena	(3) <u>200,000</u>
	Total General Fund	277,923
Nonmajor governmental funds	Nonmajor governmental funds:	
	Local Streets Fund	(4) 25,265
	Capital Improvement and	
	Replacement Fund	(1) 3,050
	General Fund	(1) <u>130,000</u>
	Total nonmajor governmental funds	<u>158,315</u>
	Total funds	<u>\$ 436,238</u>

(1) Transfer for reimbursement of expenses

(2) Transfer for City match of grants

(3) Transfer for operating subsidy

(4) Transfer of Act 51 monies to fund local street expenditures

(5) Transfer for future capital needs

City of Hazel Park, Michigan

Notes to Financial Statements June 30, 2006

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from acquired or constructed assets to pay debt service.

The Water and Sewer Fund revenue bonds are payable solely from the net revenues of the system and are not a general obligation of the City. The City has agreed to fix and maintain the system and to provide rates for service provided by the system sufficient to provide for payment of necessary expenses of the system, including the principal and interest on the bonds, when due.

The accumulated compensated absences represent the estimated liability to be paid to governmental fund-type employees under the City's sick and vacation pay policy. Under the City's policy, employees earn sick and vacation time based on time of service with the City.

Long-term obligation activity can be summarized as follows:

	Interest Rate Range	Principal Maturity Range	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Governmental Activities							
Michigan transportation revenue bonds:							
MI Transportation Bonds Series 1997A:							
Amount of issue - \$475,000	5.30% -	\$35,000 -					
Maturing through 2012	5.80%	\$50,000	\$ 270,000	\$ -	\$ (30,000)	\$ 240,000	\$ 35,000
MI Transportation Bonds Series 1999:							
Amount of issue - \$3,700,000	4.00% -	\$150,000 -					
Maturing through 2017	4.63%	\$300,000	2,800,000	-	(150,000)	2,650,000	150,000
Contractual obligations:							
Truck/Plow and lawn mowers:							
Original amount - \$187,192							
Maturing through 2006	3.86%	\$ -	39,025	-	(39,025)	-	-
Roof repairs:							
Original amount - \$54,151							
Maturing through 2005	3.43%	\$ -	4,689	-	(4,689)	-	-
Police vehicles:							
Original amount - \$63,281							
Maturing through 2009	3.15%	\$16,875	-	68,620	(12,672)	55,948	17,147
Net pension obligation	N/A	N/A	-	1,379,001	-	1,379,001	-
Compensated absences	N/A	N/A	1,290,311	19,371	-	1,309,682	202,349
General liability self-insurance claims	N/A	N/A	300,000	-	-	300,000	-
Long-term pension payable	N/A	N/A	700,000	-	(50,000)	650,000	50,000
Total governmental activities			\$ 5,404,025	\$ 1,466,992	\$ (286,386)	\$ 6,584,631	\$ 454,496

City of Hazel Park, Michigan

Notes to Financial Statements June 30, 2006

Note 7 - Long-term Debt (Continued)

	Interest Rate Range	Principal Maturity Range	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Business-type Activities							
Water and Sewer:							
Water Supply and Sewage Disposal System - Revenue Bonds - Series 1999:							
Amount of issue - \$1,640,000	4.00% -	\$100,000 -					
Maturing through 2017	4.90%	\$125,000	\$ 1,350,000	\$ -	\$ (75,000)	\$ 1,275,000	\$ 100,000
Water Utility Fund Auxiliary Engine:							
Original amount - \$205,000							
Maturing through 2007	2.95%	\$32,503	74,862	-	(42,359)	32,503	32,503
County Contractual Agreements (Note 14):							
Drain Bonds Series 2000A:							
Amount of issue - \$391,341		\$16,962 -					
Maturing through 2022	2.50%	\$24,514	344,284	-	(16,525)	327,759	16,962
Drain Bonds Series 2000B:							
Amount of issue - \$143,798	4.75% -	\$5,472 -					
Maturing through 2022	5.38%	\$10,835	130,118	-	(4,925)	125,193	5,472
Drain Bonds Series 2001C:							
Amount of issue - \$1,799,117		\$73,978 -					
Maturing through 2024	2.50%	\$112,609	1,728,641	-	(74,962)	1,653,679	73,978
Drain Bonds Series 2001E:							
Amount of issue - \$216,026	4.10% -	\$7,660 -					
Maturing through 2024	5.25%	\$15,760	208,366	-	(7,663)	200,703	7,660
Installment Purchase Agreement - Water Meter Installation:							
Original amount - \$1,100,000		\$130,336 -					
Maturing through 2012	3.69%	\$170,222	1,063,924	-	(141,694)	922,230	146,963
Ice Arena - Building Authority Ice Arena Bonds 1999:							
Amount of issue - \$9,700,000	4.35% -	\$300,000 -					
Maturing through 2024	7.35%	\$600,000	8,700,000	-	(300,000)	8,400,000	300,000
Net pension obligation	N/A	N/A	-	93,750	-	93,750	-
Compensated absences	N/A	N/A	31,512	6,480	-	37,992	15,604
Total business-type activities			<u>\$ 13,631,707</u>	<u>\$ 100,230</u>	<u>\$ (663,128)</u>	<u>\$ 13,068,809</u>	<u>\$ 699,142</u>
Component Unit Activities							
General obligation bonds:							
General Obligation 1994:							
Amount of issue - \$895,000		\$55,000 -					
Maturing through 2013	5.80%	\$95,000	\$ 665,000	\$ -	\$ (50,000)	\$ 615,000	\$ 55,000
General Obligation 1994:							
Amount of issue - \$1,800,000	6.60% -	\$135,000 -					
Maturing through 2013	7.10%	\$150,000	1,315,000	-	(130,000)	1,185,000	135,000
General Obligation 1997:							
Amount of issue - \$2,175,000	4.80% -	\$60,000 -					
Maturing through 2020	5.50%	\$175,000	1,980,000	-	(50,000)	1,930,000	60,000
Limited Tax Development Bonds 1999:							
Amount of issue - \$975,000	4.20% -	\$25,000 -					
Maturing through 2019	5.00%	\$100,000	925,000	-	(25,000)	900,000	25,000
Shammami Project:							
Original amount - \$120,000							
Maturing through 2011	6.00%	Varies	64,371	-	(8,090)	56,281	10,226
Total component unit activities			<u>\$ 4,949,371</u>	<u>\$ -</u>	<u>\$ (263,090)</u>	<u>\$ 4,686,281</u>	<u>\$ 285,226</u>

City of Hazel Park, Michigan

Notes to Financial Statements June 30, 2006

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above governmental, business-type, and component unit bond and note obligations are as follows:

	Governmental Activities			Business-type Activities			Component Unit Activities		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 252,147	\$ 132,331	\$ 384,478	\$ 683,538	\$ 551,441	\$ 1,234,979	\$ 285,226	\$ 260,079	\$ 545,305
2008	302,692	123,896	426,588	659,271	516,554	1,175,825	320,160	242,141	562,301
2009	303,258	113,306	416,564	667,820	490,728	1,158,548	335,786	222,529	558,315
2010	292,851	102,616	395,467	676,692	464,454	1,141,146	351,451	201,856	553,307
2011	295,000	91,813	386,813	810,895	437,775	1,248,670	392,158	180,082	572,240
2012-2016	1,700,000	274,350	1,974,350	3,583,603	1,736,485	5,320,088	1,811,500	547,726	2,359,226
2017-2021	450,000	13,875	463,875	3,647,164	959,265	4,606,429	1,190,000	150,038	1,340,038
2022-2025	-	-	-	2,208,084	191,872	2,399,956	-	-	-
Total	\$ 3,595,948	\$ 852,187	\$ 4,448,135	\$ 12,937,067	\$ 5,348,574	\$ 18,285,641	\$ 4,686,281	\$ 1,804,451	\$ 6,490,732

Note 8 - Restricted Assets

Restricted assets at June 30, 2006 consist of cash and investments restricted for revenue bond reserve requirements of \$127,500 in the Water and Sewer Fund.

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City participates in the Michigan Municipal Risk Management Authority risk pool for claims relating to property loss, torts, and errors and omissions, participates in the Michigan Municipal League risk pool for employee injuries (workers' compensation), is uninsured for medical benefit claims, and has purchased commercial insurance for dental, optical, and life insurance claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority (the "Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to retention limits, the ultimate liability for those claims remains with the City.

City of Hazel Park, Michigan

Notes to Financial Statements June 30, 2006

Note 9 - Risk Management (Continued)

The City estimates the liability for general liability and medical benefit claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported. Changes in the estimated liability for the past two fiscal years were as follows:

	Medical	General Liability
Unpaid claims - June 30, 2004	\$ 170,000	\$ 300,000
Incurred claims (including claims incurred but not reported)	2,383,337	192,329
Claim payments	<u>(2,333,337)</u>	<u>(192,329)</u>
Unpaid claims - June 30, 2005	220,000	300,000
Incurred claims (including claims incurred but not reported)	2,588,069	106,688
Claim payments	<u>(2,588,069)</u>	<u>(106,688)</u>
Unpaid claims - June 30, 2006	<u>\$ 220,000</u>	<u>\$ 300,000</u>

The liability for medical claims is recorded in the City's Internal Service Fund. The liability for general liability claims is not expected to be liquidated with expendable available financial resources and is recorded as a noncurrent liability in the statement of net assets (deficit).

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits

Plan Description - The Employees' Pension Plan is a single-employer defined benefit pension plan that is administered by the City's Employees' Retirement System. This plan, which covers all employees of the City, provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2005, the date of the most recent actuarial valuation, membership consisted of 138 retirees and beneficiaries currently receiving benefits, six terminated employees entitled to benefits but not yet receiving them, and 118 current active employees. The plan does not issue a separate financial report.

Funding Policy - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 5 percent to 10.35 percent of gross wages for general, police, and fire employees. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Annual Pension Costs - For the year ended June 30, 2006, the City was required to make a contribution of 22.06 percent of covered payroll to the plan. The net pension obligation of the City is calculated as follows:

Annual required contribution	\$ 1,472,751
Contributions made	<u>-</u>
Change in net pension obligation	1,472,751
Net pension obligation - Beginning of year	<u>-</u>
Net pension obligation - End of year	<u><u>\$ 1,472,751</u></u>

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

The annual required contribution was determined as part of an actuarial valuation at June 30, 2005. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 7.50 percent per year compounded annually, (b) projected salary increases of 4.30 percent to 8.10 percent per year compounded annually, of which 4.25 percent is attributable to inflation, and (c) no postretirement benefit increases. For actuarial purposes, asset values are determined using techniques that smooth the effects of short-term market volatility over a four-year period. Level percentage of payroll employer contribution rates are determined using the entry age normal actuarial funding method. The plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2005 was 28 years.

Three-year Trend Information

	2006	2005	2004
Annual pension costs (APC)	\$ 1,472,751	\$ 1,420,027	\$ 1,231,225
Percentage of APC contributed	0%	100%	100%
Net pension obligation	\$ 1,472,751	\$ -	\$ -

Note 11 - Postemployment Benefits

The City provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 138 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its self-insured health care plan with no contribution required by the participant. Expenditures for postemployment health care benefits are recognized as the claims are incurred; during the year, this amounted to approximately \$1,457,000.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Note 12 - Joint Venture

The City is a member of the Southeastern Oakland County Resource Recovery Authority, which provides solid waste disposal services to residents and businesses of Hazel Park. The participating communities provide annual funding for its operations. During the current year, the City contributed approximately \$344,000 for its operations. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Southeastern Oakland County Resource Recovery Authority can be obtained from the administrative offices at 3910 Webster Road, Royal Oak, MI 48073.

Note 13 - Contingent Liabilities

The City has been named as a defendant in multiple claims and lawsuits requesting damages of various amounts. The various proceedings have not yet progressed to the point where legal opinions can be reached as to the ultimate liabilities, if any, after consideration of available insurance, where applicable, that may result from the resolution of these matters. The City has not recorded an estimate of this liability as of June 30, 2006.

Note 14 - Commitments

In a prior fiscal period, the City and all other member communities of the Southeast Oakland County Sewage Disposal System (SOCSDS) agreed to a new National Pollutant Discharge Elimination Systems (NPDES) permit, which resulted in the settlement of a contested case hearing between the Michigan Department of Environmental Quality, Oakland County, Macomb County, the City of Detroit, and the SOCSDS communities. The issuance of the new NPDES permit requires the SOCSDS member communities, as co-permittees, to undertake improvements to the Twelve Towns Retention Treatment Facility by December 31, 2005 to expand the capacity and enhance the performance of the wastewater retention treatment facility. The estimated total cost of the project is \$130 million, with the City's estimated share approximating \$3 million. To finance the project, the SOCSDS has begun to issue debt, with each community funding their proportionate share of the debt service payments. The SOCSDS has been able to obtain grant funding and low interest (2.5 percent) State Revolving Fund money to subsidize and/or finance the improvements. As of June 30, 2006, the City has approximately \$2.3 million in outstanding debt related to this agreement (see Note 7).

City of Hazel Park, Michigan

Notes to Financial Statements June 30, 2006

Note 15 - Prior Period Adjustment

Effective July 1, 2005, a prior period adjustment was made to the governmental activities on the government-wide statements to record the estimated liability for self-insured general liability claims incurred but not reported. As a result of that change, net assets as of July 1, 2005 have been restated as follows:

	Governmental Activities
Net assets - June 30, 2005	\$ 18,287,741
Record liability for general liability claims incurred but not reported	<u>(300,000)</u>
Net assets - June 30, 2005, as restated	<u>\$ 17,987,741</u>

Note 16 - Management's Plans

Due to the reductions of state revenue sharing and limited property tax growth coupled with the continued greater than inflationary increases in general liability insurance, health care insurance, and pension contributions, the City's overall financial position and economic health remain critical as of June 30, 2006. In recent fiscal years, certain one-time negative economic events and the inability of the Municipal Ice Arena to operate profitably created constraints in the City's ability to fund services provided to residents with matching revenues, thus reducing the City's financial reserves. City management, along with City Council representatives, continue to monitor the current financial situation and have implemented strategies to maintain the current financial levels until positive changes in the funding provided to municipalities throughout the state are implemented. These strategies include the following:

1. Increased property tax revenue beginning in the 2007 fiscal year, due to the voters' recent approval of a Headlee Amendment override
2. Moving pension system into MERS, resulting in a significantly lower annual required pension contribution
3. Streamlining operations to provide essential services to residents in a more productive and efficient manner
4. Reducing nonessential services provided to residents

Note 16 - Management's Plans (Continued)

5. Receiving benefit cost concessions from all unions representing City employees
6. Strictly curtailing most capital improvement projects and expenditures

Management believes that the actions noted above, along with other operational changes, will result in continuing financial stability. Management expects to meet its projections at the Municipal Ice Arena in the fiscal year ending June 30, 2007 and beyond to eliminate the deficit in the ice arena's net assets.

City management continues to maintain a heightened level of awareness of its overall financial position and is proactively making changes in its operations and procedures to improve its productivity, control costs, and identify alternative revenue enhancement sources.

Required Supplemental Information

City of Hazel Park, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 1,208,508	\$ 226,390	\$ 226,390	\$ -
Resources (Inflows)				
Property taxes	4,902,000	5,185,555	5,304,847	119,292
State sources	2,652,395	2,658,006	2,658,007	1
Licenses and permits	503,700	463,450	443,753	(19,697)
Fines and forfeitures	1,728,158	1,728,158	1,749,499	21,341
Charges for services	1,731,650	1,738,980	1,699,292	(39,688)
Interest income	25,000	83,500	83,151	(349)
Rental income	50,000	68,000	62,970	(5,030)
Race track breakage	575,000	575,000	480,145	(94,855)
Other	311,733	259,893	237,425	(22,468)
Proceeds from the issuance of long-term debt	-	68,620	68,620	
Transfer from other funds	130,000	130,000	130,000	-
Transfer from component unit	340,896	351,496	340,896	(10,600)
Total resources (inflows)	12,950,532	13,310,658	13,258,605	(52,053)
Charges to Appropriations (Outflows)				
General government:				
City Council	35,100	35,100	24,319	10,781
Judicial	1,167,588	1,167,588	1,022,663	144,925
City manager	287,101	295,227	256,156	39,071
Elections	41,305	41,305	26,929	14,376
Assessor	162,078	143,330	136,525	6,805
Attorney	212,268	239,768	253,509	(13,741)
City clerk	236,098	241,752	218,998	22,754
Accounting and finance	303,485	406,525	374,584	31,941
Treasurer	176,409	176,409	150,478	25,931
Building and grounds maintenance	201,883	200,803	190,563	10,240
Boards and commissions	9,000	6,420	3,382	3,038
General insurance and retiree health care	1,330,285	2,040,904	2,076,764	(35,860)
Public safety:				
Police	4,273,073	4,257,713	3,712,960	544,753
Fire	2,193,847	2,336,049	2,049,653	286,396
Public works:				
Department of Public Service	748,953	712,385	549,041	163,344
Street lighting	273,830	276,400	275,839	561
Motor pool	277,159	322,440	320,359	2,081
Social services:				
Senior citizens program	65,296	65,431	62,267	3,164
Animal control	45,000	45,094	42,510	2,584
Youth assistance	1,000	1,000	1,000	-
Recreation and cultural	257,217	263,568	241,689	21,879
Planning:				
Planning Commission	10,500	7,900	6,074	1,826
Planning, building, and community development	573,578	481,464	366,964	114,500
Zoning Board of Appeals	1,100	1,000	834	166
Transfers to other funds	67,379	180,859	277,923	(97,064)
Total charges to appropriations (outflows)	12,950,532	13,946,434	12,641,983	1,304,451
Fund Balance - End of year	\$ 1,208,508	\$ (409,386)	\$ 843,012	\$ 1,252,398

City of Hazel Park, Michigan

Required Supplemental Information Pension System Schedules of Funding Progress and Employer Contributions June 30, 2006

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
Employees' Retirement System						
06/30/00 *	\$ 47,034,261	\$ 39,416,297	\$ (7,617,964)	119.3	\$ 5,332,397	-
06/30/01 *	46,299,739	41,616,616	(4,683,123)	111.3	5,521,726	-
06/30/02 **	44,403,998	44,351,390	(52,608)	100.1	5,886,041	-
06/30/03 **	41,641,839	46,472,191	4,830,352	89.6	6,259,762	77.2
06/30/04	40,464,570	48,637,756	8,173,186	83.2	6,529,644	125.2
06/30/05	40,253,828	49,808,198	9,554,370	80.8	6,676,896	143.1

* Plan amended

** Revised actuarial assumptions and/or methods

The schedule of employer contributions is as follows:

Fiscal Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
06/30/01	\$ -	100.00	\$ -
06/30/02	304,708	100.00	-
06/30/03	767,612	100.00	-
06/30/04	1,231,225	100.00	-
06/30/05	1,420,027	100.00	-
06/30/06	-	-	1,472,751

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2005, the latest actuarial valuation date, follows:

Actuarial cost method	Entry age
Amortization method	Level percent, closed
Amortization period (perpetual)	28 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases*	4.30%-8.10%
*Includes inflation at	4.25%
Cost of living adjustments	None

City of Hazel Park, Michigan

Note to Required Supplemental Information Year Ended June 30, 2006

Note - Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds, except that operating transfers and debt proceeds have been included in the “revenue” and “expenditures” categories, rather than as an “other financing sources/uses”. In addition, reimbursements of expenditures from other funds have been included in revenue, rather than a reduction of expenses.

The City follows these procedures in establishing the budget reflected in the financial statements:

1. The city manager, on or before 60 days prior to the commencement of the fiscal and budgetary year (July 1), shall prepare and submit to the Council a complete itemized proposed budget for the next fiscal year.
2. A public hearing on the budget shall be held before its final adoption, at such time and place as the Council shall direct, and notice of such public hearing shall be published at least 10 days in advance thereof by the clerk.
3. The Council shall, on or before 30 days prior to the commencement of the next fiscal year, adopt a budget for the ensuing fiscal year.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level. The city manager has the authority to approve budget amendments between line items within a department; however, any amendments changing department totals must be approved by the City Council.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

City of Hazel Park, Michigan

Note to Required Supplemental Information Year Ended June 30, 2006

Note - Budgetary Information (Continued)

A reconciliation of the budgetary comparison schedules to the fund-based statement of changes in fund balance is as follows:

	General Fund	
	Total Revenue	Total Expenditures
Amounts per operating statement	\$ 12,033,923	\$ 11,337,998
Operating transfers	130,000	277,923
Proceeds from long-term debt	68,620	-
Reimbursements from other funds	1,026,062	1,026,062
	<u>\$ 13,258,605</u>	<u>\$ 12,641,983</u>
Amounts per budgetary comparison schedule	<u>\$ 13,258,605</u>	<u>\$ 12,641,983</u>

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City of Hazel Park incurred expenditures that were in excess of the amounts budgeted in the General Fund, as follows:

	Amended	Actual	Variance
	Budget		
Attorney	\$ 239,768	\$ 253,509	\$ (13,741)
General insurance and retiree health care	2,040,904	2,076,764	(35,860)
Transfers to other funds	180,859	277,923	(97,064)

These unfavorable expenditure variances in the General Fund were caused by health benefits for retirees being greater than anticipated and unanticipated legal fees. The variance in the transfers to other funds is the result of an additional transfer to the Capital Improvement Fund for planned capital expenditures.

Other Supplemental Information

City of Hazel Park, Michigan

	Special Revenue					
	Major Streets	Local Streets	Garbage and Rubbish Collection	Police Training	Community Development Block Grant	Drug Law Enforcement
Assets						
Cash and investments	\$ -	\$ -	\$ 415,121	\$ 28,820	\$ 11,259	\$ 266,978
Receivables - Net of allowances	-	-	1,372	-	-	-
Due from other governmental units	123,467	47,894	98	-	31,612	-
Total assets	\$ 123,467	\$ 47,894	\$ 416,591	\$ 28,820	\$ 42,871	\$ 266,978
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 13,448	\$ 5,924	\$ 66,165	\$ 1,319	\$ -	\$ -
Accrued and other liabilities	-	-	2,957	-	-	-
Due to other funds	-	-	-	-	-	-
Advances due to other funds	110,019	16,253	-	-	31,612	-
Deferred revenue	-	-	-	27,501	-	-
Total liabilities	123,467	22,177	69,122	28,820	31,612	-
Fund Balances						
Unreserved, designated	-	-	8,735	-	11,259	-
Unreserved, undesignated	-	25,717	338,734	-	-	266,978
Total fund balance	-	25,717	347,469	-	11,259	266,978
Total liabilities and fund balances	\$ 123,467	\$ 47,894	\$ 416,591	\$ 28,820	\$ 42,871	\$ 266,978

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006**

Funds

Cable Public Information	Byrne Memorial Justice Grant	Auto Theft Prevention	Capital	Local Law Enforcement Block Grant	PA 495 Fire Insurance Fund	9-11 Police Training Fund	Total Nonmajor Governmental Funds
			Improvement and Replacement				
\$ 85,511	\$ 9,893	\$ 9,823	\$ 108,247	\$ -	\$ 15,835	\$ 7,755	\$ 959,242
18,972	-	-	13,482	-	-	-	33,826
-	-	4,200	-	-	-	-	207,271
\$ 104,483	\$ 9,893	\$ 14,023	\$ 121,729	\$ -	\$ 15,835	\$ 7,755	\$ 1,200,339
\$ 11	\$ -	\$ 126	\$ -	\$ -	\$ -	\$ -	\$ 86,993
-	-	-	-	-	15,835	-	18,792
-	-	4,074	-	-	-	-	4,074
-	-	-	-	-	-	-	157,884
5,000	9,893	-	-	-	-	7,755	50,149
5,011	9,893	4,200	-	-	15,835	7,755	317,892
-	-	9,823	-	-	-	-	29,817
99,472	-	-	121,729	-	-	-	852,630
99,472	-	9,823	121,729	-	-	-	882,447
\$ 104,483	\$ 9,893	\$ 14,023	\$ 121,729	\$ -	\$ 15,835	\$ 7,755	\$ 1,200,339

City of Hazel Park, Michigan

	Special Revenue					
	Major Streets	Local Streets	Garbage and Rubbish Collection	Police Training	Community Development Block Grant	Drug Law Enforcement
Revenue						
Property taxes	\$ -	\$ -	\$ 735,895	\$ -	\$ -	\$ -
Federal grants	-	-	-	-	103,674	-
State sources	747,743	388,683	-	12,864	-	-
Race track breakage	-	-	-	-	-	-
Charges for services	-	-	480,415	-	-	-
Interest and rentals	-	1,459	16,669	812	-	6,871
Other	-	-	-	-	-	54,920
Total revenue	747,743	390,142	1,232,979	13,676	103,674	61,791
Expenditures						
Current:						
General government	74,774	29,005	-	-	-	-
Public safety	-	-	-	13,676	-	450
Public works	328,696	360,685	1,093,118	-	93,322	-
Capital outlay	-	-	-	-	-	1,882
Debt service	319,008	-	-	-	-	-
Total expenditures	722,478	389,690	1,093,118	13,676	93,322	2,332
Excess of Revenue Over (Under)						
Expenditures	25,265	452	139,861	-	10,352	59,459
Other Financing Sources (Uses)						
Transfers in	-	25,265	-	-	907	-
Transfers out	(25,265)	-	-	-	-	(90,000)
Total other financing sources (uses)	(25,265)	25,265	-	-	907	(90,000)
Net Change in Fund Balances	-	25,717	139,861	-	11,259	(30,541)
Fund Balances - Beginning of year	-	-	207,608	-	-	297,519
Fund Balances - End of year	\$ -	\$ 25,717	\$ 347,469	\$ -	\$ 11,259	\$ 266,978

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2006

Funds							
Cable Public Information	Byrne Memorial Justice Grant	Auto Theft Prevention	Capital Improvement and Replacement	Local Law Enforcement Block Grant	PA 495 Fire Insurance Fund	9-11 Police Training Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 735,895
-	3,133	-	42,601	14,336	-	-	163,744
-	-	70,123	-	-	-	1,328	1,220,741
-	-	-	71,746	-	-	-	71,746
-	-	-	-	-	-	-	480,415
1,689	67	254	524	164	-	199	28,708
<u>75,837</u>	<u>-</u>	<u>-</u>	<u>62,363</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>193,120</u>
77,526	3,200	70,377	177,234	14,500	-	1,527	2,894,369
-	-	-	-	-	-	-	103,779
-	3,200	80,623	-	-	-	1,527	99,476
5,413	-	-	-	-	-	-	1,881,234
-	-	-	51,349	16,514	-	-	69,745
<u>-</u>	<u>-</u>	<u>-</u>	<u>59,089</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>378,097</u>
5,413	3,200	80,623	110,438	16,514	-	1,527	2,532,331
72,113	-	(10,246)	66,796	(2,014)	-	-	362,038
-	-	23,119	54,933	2,014	-	-	106,238
<u>(40,000)</u>	<u>-</u>	<u>(3,050)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(158,315)</u>
(40,000)	-	20,069	54,933	2,014	-	-	(52,077)
32,113	-	9,823	121,729	-	-	-	309,961
<u>67,359</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>572,486</u>
<u>\$ 99,472</u>	<u>\$ -</u>	<u>\$ 9,823</u>	<u>\$ 121,729</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 882,447</u>

City of Hazel Park, Michigan

Other Supplemental Information Combining Statement of Assets and Liabilities Agency Funds June 30, 2006

	Current Tax Collection	Agency	Totals
Assets - Cash	<u>\$ 92,007</u>	<u>\$ 188,662</u>	<u>\$ 280,669</u>
Liabilities			
Accrued and other liabilities	\$ -	\$ 188,662	\$ 188,662
Due to other governmental units	<u>92,007</u>	<u>-</u>	<u>92,007</u>
Total liabilities	<u>\$ 92,007</u>	<u>\$ 188,662</u>	<u>\$ 280,669</u>

**Alan C.
Young & Associates,**
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November 30, 2006

Honorable Mayor and
Members of the City Council
City of Hazel Park
111 East Nine Mile Road
Hazel Park, MI 48030

We have audited the basic financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hazel Park, Michigan, (the City), for the year ended June 30, 2006, and have issued our report thereon dated November 30, 2006.

In planning and performing our audit of the basic financial statements of the City for the year ended June 30, 2006, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of this report.

During our audit, we noted certain matters involving internal control and other operational matters that are presented for your consideration. We will review the status of these comments during our next audit engagement. These comments and recommendations, all of which have been discussed with the appropriate members of the management, are intended to improve internal control or result in other operating efficiencies and are summarized in Appendix A.

Our audit procedures are designed primarily to enable us to form opinions on the basic financial statements, and therefore may not bring to light all weaknesses in policies and procedures that may exist. We aim, however, to use our knowledge of the City's organization gained during our work to make comments and suggestions that we hope will be useful to you.

This letter is intended solely for the information of officials of the City of Hazel Park, management, and others within the City. However, this letter is a matter of public record, and its distribution is not limited.

Sincerely,



Alan C. Young & Associates, P.C.
Certified Public Accountants

1. OVERALL CITY FINANCIAL POSITION

The City's financial position and economic health has improved during the fiscal year ended June 30, 2006. The City's total governmental fund balance increased from \$798,000 at June 30, 2005 to \$1,725,000 at June 30, 2006. However, the unreserved/undesignated portion of the fund balance is a \$58,000 deficit. The primary factor for the improved fund balance is the City's net pension obligation in the amount of \$1,352,000 that is not reflected as a liability on fund-based financial statement, but is shown as a designated portion of the fund balance at June 30, 2006.

The City management needs to critically review its budgeted fund balance positions and accordingly, cash flow availability to evaluate the likelihood of meeting its initial budgeted targets. The analysis should include a detailed assessment of the primary revenue sources such as taxes, state shared revenue, permit fees and court fines, and expenditures on other side such as labor costs, including pension and healthcare obligations, including the level of citizens' services planned versus what can be afforded. City management has indicated that this financial review is an ongoing and continuous process.

2. ADMINISTRATIVE AND INTERFUND CHARGES

The General Fund continues to charge various funds for administration and other services provided to these funds. We recommend that the City annually review the interfund charges to determine if these charges should be continued and, if so, that they are reflective of the ongoing cost of administering these funds. In addition, although the charges appear reasonable, we recommend that formal documentation be maintained in support of these charges.

3. BUDGETING AND CASH FLOW REQUIREMENTS

In consideration of the City's strained financial position and the current negative economic business climate, the City must develop a three-to-five year operating plan and financial forecast that would include alternative scenarios the City could expect to encounter. The following are examples of different situations that should be considered:

- Expected changes in employee work force (contract expirations, renegotiations, attrition, etc.)
- The declining level of state shared revenue received
- The expected levels of targeted capital and infrastructure expenditures including future debt service requirements
- The restricted growth of future property tax revenues
- Ability to provide future services consistent with today's level

In light of your capital investments within the City, including future debt service commitments related to the road and infrastructure reconstruction programs and the construction and operations of a municipal ice arena complex, the development of an operating plan and cash flow forecast is imperative. By preparing plans under different scenarios, the City would be better equipped to respond to expected and unexpected short-term and long-term financial constraints.

4. WATER & SEWER RATE STRUCTURE

The City's current policy regarding annual adjustments to the Water & Sewer rate charged to customers is to pass along increases from the City of Detroit and Wayne County for water purchases and sewage disposal. The City should consider revisiting this policy as these percentage increases may not be consistent with the cost of operating the remainder of the department. We recommend the rate structure be reviewed on annual basis to ensure compliance with all federal and state regulations, as well as, ensuring the revenues will cover the cost of operating the department.

5. DELINQUENT PERSONAL PROPERTY TAXES

The City does not currently record delinquent personal property tax receivables on the general ledger or a related reserve for any amounts deemed to be uncollectible. The City should consider recording these receivables in order to quantify potential dollars to be received by the City in future years.

6. CHARGES FOR SERVICES

With many of the City's prime revenue sources limited due to enacted laws and/or State Legislative control, we recommend that the City review its current rate structure utilized in charging for services, licenses, permits and other fees. Due to the annual increased costs associated with providing these services, we recommend that these charges be periodically reviewed for market and cost competitiveness. In determining the appropriateness of fees, both the direct costs associated with providing the service along with the amount charged by neighboring communities for similar services, should be considered.

7. CASH RECEIPTS: MAKING TIMELY DEPOSITS

Our audit testing in the area of cash receipts revealed that the Treasurer's Office is not making daily deposits of cash to the bank. This practice increases the risk of a loss or theft of cash while it is on the premises. To strengthen internal controls in this area, we suggest that during times of heavy cash inflow, deposits to the bank be made on a daily basis. During periods of less cash inflow, we recommend that cash be deposited at the bank no less than once a week. This practice will strengthen the City's internal control over cash receipts and reduce the likelihood that cash could be lost or stolen before it is deposited in the bank.

8. UPCOMING REPORTING CHANGES

The Governmental Accounting Standards Board has recently released Statement Number 45, Accounting and Reporting by Employers for Post employment Benefits Other Than Pensions. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well any "other" post employment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.